

CITY OF PRINCETON
Princeton, Kansas

REGULATORY BASIS FINANCIAL STATEMENTS
For the year ended December 31, 2012

And

INDEPENDENT AUDITORS' REPORTS

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CITY OF PRINCETON, KANSAS

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Karlin & Long, LLC
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

The Honorable Mayor and City Council
P.O. Box 58
Princeton, Kansas 66078

We have audited the accompanying water and sewer fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the City of Princeton, Kansas ("Municipality") as of and for the year ended December 31, 2012, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the Kansas Municipal Audit and Accounting Guide as described in Note 1 to meet the financial reporting requirements of the State of Kansas. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the *Kansas Municipal Audit and Accounting Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the City of Princeton to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Princeton as of December 31, 2012, or changes in financial position and cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the water sewer funds aggregate cash and unencumbered cash balance of the City of Princeton (“Municipality”) as of December 31, 2012, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide described in Note 1.

Report on Supplementary Information

Our audit was conducted for the purpose of forming opinion on the 2012 water and sewer fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The summary of regulatory basis expenditures-actual and budget and individual fund schedules of regulatory basis receipts and expenditures-actual and budget (Schedules 1, 2, and 3 as listed in the table of contents) are presented for purposes of additional analysis and are not a required part of the 2012 basic financial statement, however are required to be presented under the provisions of the *Kansas Municipal Audit and Accounting Guide*. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2012 basic financial statement. The

2012 information has been subjected to the auditing procedures applied in the audit of the 2012 basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2012 basic financial statement or to the 2012 basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 2012 basic financial statement as a whole, on the basis of accounting described in Note 1.

A handwritten signature in cursive script that reads "Karlin & Long, LLC". The signature is written in dark ink and is positioned above the printed name of the firm.

Karlin & Long, LLC
Certified Public Accountants

Lenexa, KS
May 30, 2014

CITY OF PRINCETON, KANSAS
 Summary of Cash Receipts, Expenditures, and Unencumbered Cash - Water and Sewer Funds
 Regulatory Basis
 For the Year Ended December 31, 2012

Funds	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
Governmental Type Funds:							
Proprietary Type Funds:							
Water fund	\$ 141,554	\$ 0	\$ 74,686	\$ 77,705	\$ 138,535	\$ 0	\$ 138,535
Sewer fund	69,653	0	24,728	19,424	74,957	0	74,957
Total Reporting Entity	<u>\$ 211,207</u>	<u>\$ 0</u>	<u>\$ 99,414</u>	<u>\$ 97,129</u>	<u>\$ 213,492</u>	<u>\$ 0</u>	<u>\$ 213,492</u>

Composition of Cash

Checking Accounts	\$ 164,829
Savings Accounts	
Petty Cash	
Municipal Investment Pool	
Certificates of Deposit	48,663
Total Reporting Entity	<u>\$ 213,492</u>

The notes to the financial statements are an integral part of this statement.

CITY OF PRINCETON, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies

Financial Reporting Entity

The City of Princeton, Kansas is a municipal corporation governed by an elected six member council. The regulatory statement presents the City of Princeton (the municipality). There are no organizations which meet the criteria for being combined in the City's report.

Regulatory Basis Fund Types

General Fund – The chief operating fund. Used to account for all resources except those required to be accounted for in another fund.

Special Purpose Funds - Used to account for the proceeds of specific tax levies and other specific revenue sources (other than major capital projects and tax levies for long-term debt) that are intended for specified purposes.

Business Funds – funds financed in whole or in part by fees charged to users of the goods or services (i.e. water fund, sewer fund, etc.)

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America

The *Kansas Municipal Audit and Accounting Guide* (KMAAG) regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis revenues and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt. Accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

The City has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the City to use the regulatory basis of accounting.

CITY OF PRINCETON, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Reimbursed Expenses

Reimbursed expenses are defined as repayments of amounts remitted on behalf of another party. All reimbursed expenses shown in the financial statements meet the following criteria: 1) the related disbursement was made in the current year on behalf of the payee, 2) the item paid for was directly identifiable as having been used by or provided to the payee, and 3) the amount of the reimbursed expense was directly tied to the amount of the original cash disbursement.

Budgetary Information

Kansas Statutes require that an annual operating budget be legally adopted for the General Fund, Special Purpose Funds (unless specifically exempted by statute), Bond and Interest Funds, and Business Funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in local newspaper on or before August 5th of the proposed budget and notice of public hearing on the budget.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenues other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for the 2012 year.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

CITY OF PRINCETON, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Budgetary Information (continued)

All legal annual operating budgets are prepared using the regulatory basis of accounting, in which revenues are recognized when cash is received and expenditures include disbursements, accounts payable and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. All unused budgeted expenditure authority lapses at year end.

A legal operating budget is not required for capital projects funds, trust funds and the following special revenue funds:

- 1) Capital Improvement Fund,
- 2) Equipment Reserve Fund.

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

NOTE 2 – Deposits and Investments

K.S.A. 9-1401 establishes the depositories which may be used by the government. The statute requires banks eligible to hold the government's funds have a main or branch bank in the county in which the government is located and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The government has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the government's investments of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The government has no investment policy that would further limit its investment choices.

CITY OF PRINCETON, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – Deposits and Investments (Continued)

Concentration of Credit Risk

State statutes place no limit on the amount the government may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and K.S.A. 9-1405.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. State statutes require the government's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured at December 31, 2012.

At December 31, 2012, the government's carrying amount of deposits was \$389,295 and the bank balance was \$393,709. The bank balance was held by five banks resulting in a concentration of credit risk. Of the bank balance, \$393,709 was covered by federal depository insurance and \$0 was collateralized with securities held by the pledging financial institutions' agents in the government's name.

Custodial Credit Risk- Investments

For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

NOTE 3 – Defined Benefit Pension Plan

Plan Description – The City of Princeton, Kansas participates in the Kansas Public Employees Retirement System (KPERS). KPERS is a cost sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. KPERS provide retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas; Topeka, KS 66603) or by calling 1-888-275-5737.

CITY OF PRINCETON, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – Defined Benefit Pension Plan (continued)

K.S.A. 74-4919 and K.S.A. 74-4921 establishes the KPERS member-employee contribution rates. Effective July 1, 2009 KPERS has two benefit structures and funding depending on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law establishes the KPERS member-employee contribution rate of 4% of covered salary for Tier 1 members and at 6% of covered salary for Tier 2 members. The employer collects and remits member-employee contributions according to the provisions of Section 414 (h) of the Internal Revenue Code. Kansas law provides that the employer contribution rates be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. Kansas law sets a limitation on annual increases in the employer contribution rates.

NOTE 4 – Stewardship, Compliance and Accountability

Compliance with Kansas Statutes

We noted no violations of Kansas Statutes for the period under audit

NOTE 5 – Other Long Term Obligations from Operations

Other Post Employment Benefits

As provided by K.S.A. 12-5040, the City allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the city is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in these statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the city makes health care available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured.

Compensated Absences

City employees are allowed to take vacation and sick leave. Vacation pay is not provided due to the employees being considered part time. Upon termination, employees are not compensated for any unused vacation leave. Sick leave is provided as needed.

CITY OF PRINCETON, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 5 – Other Long Term Obligations from Operations (Continued)

Compensated Absences (Continued)

The employees are expected to complete the tasks at any time available. Amounts as compensated absences have not been recorded in the financial statements due to its immaterial nature.

NOTE 6 – Subsequent Events Review

Subsequent events for management's review have been evaluated through May 30, 2014. The date in the prior sentence is the date the financial statements were available to be issued.

NOTE 7 – Claims and Judgments

The City participates in federal, state and county programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the City may be required to reimburse the grantor government. As of May 30, 2014, grant expenditures have not been audited, but the City believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the City.

The City is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employee; and natural disasters. The City has purchased commercial insurance for these potential risks. There have been no significant reductions in insurance coverage from 2011 to 2012 and there were no settlements that exceeded insurance coverage in the past three years.

During the ordinary course of its operations the City is a party to various claims, legal actions and complaints. It is the opinion of the City's management and legal counsel that these matters are not anticipated to have a material financial impact on the City.

CITY OF PRINCETON, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 8 – Interfund Transactions

Operating transfers were as follows:

<u>From</u>	<u>To</u>	<u>Statuary Authority</u>	<u>Amount</u>
General	Capital Improvement	K.S.A. 12-1,118	\$ 10,000

NOTE 9 – Long Term Debt

The schedule of long term debt and current maturities for the next five years is detailed in the following schedule.

CITY OF PRINCETON, KANSAS

NOTES TO FINANCIAL STATEMENTS

Note 9 - Long Term Debt

Changes in long-term liabilities for the City for the year ended December 31, 2012 were as follows:

Issue	Interest Rate	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Net Change	Balance End of Year	Interest Paid
General Obligation Bonds										
2006 Issue	4.50%	9/8/06	373,500	9/13/46	\$ 354,000	\$	\$ 4,000	\$ (4,000)	\$ 350,000	\$ 15,930
2011 Issue	4.25%	1/18/11	81,886	1/18/17	\$ 81,886	\$	\$ 14,886	\$ (14,886)	\$ 67,000	\$ 3,480
Kansas Water Pollution Control Loan										
2008 Issue	2.33%	3/1/08	152,175	3/1/28	129,680		5,478	(5,478)	124,202	3,310
Total Long Term Debt					\$ 565,566	\$ 0	\$ 24,364	\$ (24,364)	\$ 541,202	\$ 22,720
Current maturities of long-term debt and interest for the next five years and in five year increments through maturity are as follows:										
	2013	2014	2015	2016	2017	2018-2022	2023-2027	2028-2032	2033-2037	2038-2042
Principal										Total
General Obligation Bonds	\$ 19,886	\$ 21,000	\$ 21,000	\$ 22,000	\$ 8,114	\$ 31,000	\$ 38,000	\$ 48,000	\$ 59,000	\$ 75,000
Special Assessment Bonds										\$ 74,000
Certificates of Participation										\$ 417,000
Capital Leases	5,620	5,766	5,916	6,069	6,227	33,645	38,248	22,711		0
Revenue Bonds										124,202
Temporary Notes										0
Total Principal	25,506	26,766	26,916	28,069	14,341	64,645	76,248	70,711	59,000	75,000
Interest										
General Obligation Bonds	18,597	17,740	16,835	15,930	14,982	70,425	62,865	53,415	41,715	27,045
Special Assessment Bonds										8,550
Certificates of Participation										0
Capital Leases	3,168	3,022	2,873	2,719	2,562	10,297	5,696	928		0
Revenue Bonds										31,265
Temporary Notes										0
Total Interest	21,765	20,762	19,708	18,649	17,544	80,722	68,561	54,343	41,715	27,045
Total Principal and Interest	\$ 47,271	\$ 47,528	\$ 46,624	\$ 46,718	\$ 31,885	\$ 145,367	\$ 144,809	\$ 125,054	\$ 100,715	\$ 102,045
										\$ 82,550
										\$ 920,566

CITY OF PRINCETON, KANSAS
 Summary of Expenditures - Water and Sewer Funds - Actual and Budget
 Regulatory Basis
 (Budgeted Funds Only)
 For the Year Ended December 31, 2012

Funds	Certified Budget	Adjustments to Comply with Legal Max	Adjustments for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance - Over (Under)
Governmental Type Funds						
Proprietary Type Funds						
Water fund	\$ 202,114	\$ 0	0	\$ 202,114	\$ 77,705	\$ (124,409)
Sewer fund	95,195	0	0	95,195	19,424	(75,771)

The notes to the financial statements are an integral part of this statement.

CITY OF PRINCETON, KANSAS
WATER UTILITY FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012

	Actual	Budget	Variance- Over (Under)
CASH RECEIPTS			
Charges to customers	\$ 73,747	\$ 69,000	\$ 4,747
Meter deposits	375	100	275
Tap fees			0
Sales tax		1,200	(1,200)
Miscellaneous revenues	202	500	(298)
Interest income	362	50	312
	<u>74,686</u>	<u>70,850</u>	<u>3,836</u>
Total Cash Receipts			
EXPENDITURES			
Salaries	7,977	9,200	(1,223)
Supplies	1,794	3,250	(1,456)
Contractual	997	4,500	(3,503)
Capital outlay	2,114	116,759	(114,645)
Utilities	1,783	2,400	(617)
Insurance	2,579	4,500	(1,921)
Sales tax	872	1,200	(328)
Water purchase	35,891	31,000	4,891
Kansas water fees	667	875	(208)
Equipment		100	(100)
Engineering fees			0
Audit/Legal fees	2,466		2,466
Permits, dues, lab fees	192	600	(408)
Returned checks	152	400	(248)
Miscellaneous	291	1,920	(1,629)
Demand 50%		2,000	(2,000)
Loan payments	19,930	23,410	(3,480)
Adjustment for qualifying budget credits	0		0
	<u>77,705</u>	<u>\$ 202,114</u>	<u>\$ (124,409)</u>
Total Expenditures			
Receipts Over (Under) Expenditures	(3,019)		
Unencumbered Cash, Beginning	141,554		
Prior Year Cancelled Encumbrances	0		
	<u>0</u>		
Unencumbered Cash, Ending	\$ <u>138,535</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF PRINCETON, KANSAS
SEWER UTILITY FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012

	Actual	Budget	Variance- Over (Under)
CASH RECEIPTS			
Sewer charges	\$ 24,728	\$ 25,000	\$ (272)
Sewer deposits			0
Miscellaneous revenues			0
Operating transfers			0
	<u>24,728</u>	<u>25,000</u>	<u>(272)</u>
Total Cash Receipts	<u>24,728</u>	<u>25,000</u>	<u>(272)</u>
EXPENDITURES			
Salaries	5,582	5,300	282
Supplies	181	2,050	(1,869)
Contractual		2,500	(2,500)
Utilities	295	600	(305)
Insurance	1,364	1,150	214
Permits, dues, lab fees	748	725	23
Audit/Legal fees	2,466		2,466
Loan payment	8,788	9,787	(999)
Capital outlay		73,083	(73,083)
Engineering fees			0
Miscellaneous			0
Adjustment for qualifying budget credits			0
	<u>19,424</u>	<u>\$ 95,195</u>	<u>\$ (75,771)</u>
Total Expenditures	<u>19,424</u>	<u>\$ 95,195</u>	<u>\$ (75,771)</u>
Receipts Over (Under) Expenditures	5,304		
Unencumbered Cash, Beginning	69,653		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	<u>\$ 74,957</u>		

The notes to financial statements are an integral part of this statement.